

## ENHANCED MARKET ACCESS TO PERU

Eighty percent of U.S. exports of consumer and industrial products to Peru will be duty-free immediately upon entry into force of the Agreement, with remaining tariffs phased out over ten years. Within each of the following key industrial sectors, almost all products will gain immediate duty free access to the Peruvian market: information technology products, mining, agriculture and construction equipment, medical and scientific equipment, auto parts, paper products and chemicals. U.S. farmers and ranchers also gain tremendous access from the U.S.-Peru TPA with nearly ninety percent of current exports receiving duty-free treatment immediately upon entry into force of the Agreement. Moreover, Peru will phase-out all other agricultural tariffs within 17 years. Key U.S. agriculture exports such as cotton, wheat, soybeans, high quality beef, apples, pears, peaches, cherries and almonds, will receive immediate duty-free treatment.

### *Best Prospects for Increased Market Growth for Non-Textile Industrial Goods*

#### *Information Technology Products*

Virtually all information technology products will be duty free upon entry into force of the Agreement. Despite tariffs that average almost six percent and range up to twelve percent, U.S. exports of information technology products were \$223 million in 2004, accounting for almost sixteen percent of total U.S. exports to Peru. With the immediate removal of most tariffs, U.S. exports will become much more competitive and affordable to Peruvians.

Best prospects in this sector include computers and computer parts, radio and television broadcasting apparatus, and software.

#### ***Average Peruvian tariffs on imports of goods from the United States***

Information Technology Equipment	5.8%
Chemicals	7.1%
Metals and Ores	8.8%
Infrastructure and Machinery	5.9%
Transportation Equipment	5.5%
Autos and Auto parts	7.4%
Building Products	7.9%
Paper and Paper Products	9.7%
Consumer Goods	11.1%

Peru has agreed to join the multilateral Information Technology Agreement (ITA) by January 1, 2008. U.S. exporters of information technology products will all benefit from this. Peru is forging ahead in the digital age and ranks third in Latin America in terms of Internet connectivity.

#### *Industrial Machinery*

##### **Tariffs Are Big Money on Big Equipment**

Caterpillar reports that a 12 percent tariff on an off-highway truck manufactured in Decatur, IL adds more than \$100,000 to the price – greatly damaging the company's competitiveness in Peru's booming mining industry. \*

\*Caterpillar's testimony to the ITC March 2006

Eighty percent to ninety percent of U.S. capital goods exports to Peru will be duty-free immediately upon entry into force of the U.S.-Peru TPA. Peruvian industries need U.S. manufactured goods to transform their raw materials. U.S. exporters of agricultural and construction equipment, food processing, storage and packing equipment and

heating and cooling equipment will benefit significantly from the Agreement. Peru's commitment to grow the tourism industry, coupled with major infrastructure projects and growing investment in the mining industry will continue to fuel demand for specialized machinery. Hydrocarbon reserves along the northern Coast and in the jungle region of Peru have ignited interest in prospecting and exploration. In addition, Peru is focusing on bringing regional airports up to international standards. These airports will need at least \$100 million in investments to bring them up to date.

Food processing and packaging equipment is a best prospect for export to Peru. Peru is the world's leading fishmeal and asparagus exporter. These growing industries need specialized equipment to process and package their products. In 2005, Peru imported approximately \$80 million worth of food processing and packing equipment. Although the United States held the largest market share, it still supplied only \$13 million worth of imports in this category. With the exception of one product, tariffs on food processing and packing equipment immediately will fall to zero (with the remaining tariff phased out over ten years) entry into force of the Agreement, giving U.S. exporters and investors a tremendous advantage over heavy European competition.

Overall, U.S. exports in machinery reached \$699 million in 2005, accounting for almost thirty percent of total U.S. exports to the country. With the immediate elimination of most industrial machinery tariffs, and phase-out of all remaining tariffs, U.S. exports will be much more competitive compared to goods from other countries.

### *Chemicals*

Chemicals accounted for twenty-eight percent of U.S. exports to Peru in 2004, totaling \$400 million. Current tariffs of up to twelve percent will fall to zero on seventy-six percent of chemical exports immediately upon implementation of the Agreement. The remaining tariffs will phase out over ten years. Best prospects in this sector include polyethylene, lubricating oil additives and acrylic polymers. Tariffs on ninety-six percent of fertilizer and agrochemical exports will fall to zero immediately upon entry into force of the Agreement.

### *Remanufactured Equipment*

For the first time, U.S. exporters will be able to sell high-quality remanufactured equipment in Peru. Currently, these products face an import ban. Upon implementation of the Agreement, U.S. remanufacturers of many products, such as engines, radiators, and alternators for construction equipment and transportation machinery, will be able to export their products to Peru without non-tariff barriers. Remanufacturing is a labor-intensive activity that allows the recycling of discarded or used "cores," which are normally the heaviest basic parts, such as an engine or radiator. The industry employs tens of thousands of U.S. workers. Under the U.S.-Peru TPA, tariffs on most remanufactured products will be eliminated immediately and tariffs on a small number of products will be phased out over ten years. This is an excellent opportunity for U.S. exporters of remanufactured equipment. Best prospects for remanufactured equipment

include computers, cellular telephones, construction and medical equipment, and auto parts.

### *Medical Equipment*

Ninety-eight percent of U.S. medical equipment exports to Peru will receive duty free access immediately upon entry into force of the Agreement, with the remaining duties phased out over five years. In 2004, the United States exported \$22.7 million worth of goods to Peru, including instrument parts, electro diagnostic apparatus and ultrasound.

### *Electrical Power Generation and Distribution Equipment*

Tariffs on sixty-eight percent of electrical power generation and distribution equipment will be eliminated immediately upon entry into force of the Agreement with the remaining tariffs phased out over ten years. The government of Peru is promoting legislative and regulatory reforms to encourage electric power producers to convert from oil and diesel fuels to natural gas. These developments will lead to a greater need for power generation equipment in Peru.